

REDACTED FOR PUBLIC INSPECTION

October 20, 2011

VIA ECFS

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: *Developing a Unified Intercarrier Compensation Regime*, CC Docket No. 01-92;
High-Cost Universal Service Support, WC Docket No. 05-337; *Establishing Just and Reasonable Rates for Local Exchange Carriers*, WC Docket No. 07-135; *Connect America Fund*, WC Docket No. 10-90; *A National Broadband Plan for Our Future*, GN Docket No. 09-51; *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45; *Lifeline and Link-Up*, WC Docket No. 03-109

Dear Ms. Dortch:

On Tuesday, October 18, 2011, Ron Duncan, President and CEO of General Communication, Inc., Megan Delany, Counsel and Vice- President of Federal Government Affairs, Chris Nierman, Federal Regulatory Director, and Peter Pounds of General Communication, Inc., and I, of Wiltshire & Grannis LLP, on behalf of GCI, met with FCC Commissioner Michael Copps and Margaret McCarthy, Wireline Policy Advisor to Commissioner Copps. Also on Tuesday, I met with Zac Katz, Chief Counsel and Legal Advisor to FCC Chairman Julius Genachowski. On Wednesday, October 19, Peter Pounds of GCI and I met with Paul de Sa, Chief, Office of Strategic Planning and Policy Analysis. In these meetings, GCI presented points summarized in the attached written ex parte, which was provided to Commissioner Copps and Ms. McCarthy, and to Mr. de Sa.

On Monday, October 17, 2011, on behalf of General Communication Inc. ("GCI"), I spoke with Rick Kaplan, Chief of the Wireless Telecommunications Bureau. My presentation covered the same points previously summarized in GCI's ex parte of October 18, 2011, and incorporated by reference herein.¹ This conversation was inadvertently omitted from that ex parte.

¹ See Letter from John Nakahata, Wiltshire & Grannis LLP, to Marlene Dortch, Federal Communications Commission, WC Docket Nos. 10-90 et al. (filed Oct. 18, 2011).

Marlene H. Dortch
October 20, 2011
Page 2 of 2

A copy of this letter is being filed in the above-referenced dockets.

Sincerely,

A handwritten signature in black ink, appearing to read "John T. Nakahata".

John T. Nakahata
Counsel to General Communication, Inc.

Cc: Michael Copps
Rick Kaplan
Paul de Sa
Zachary Katz
Margaret McCarthy

Attachment

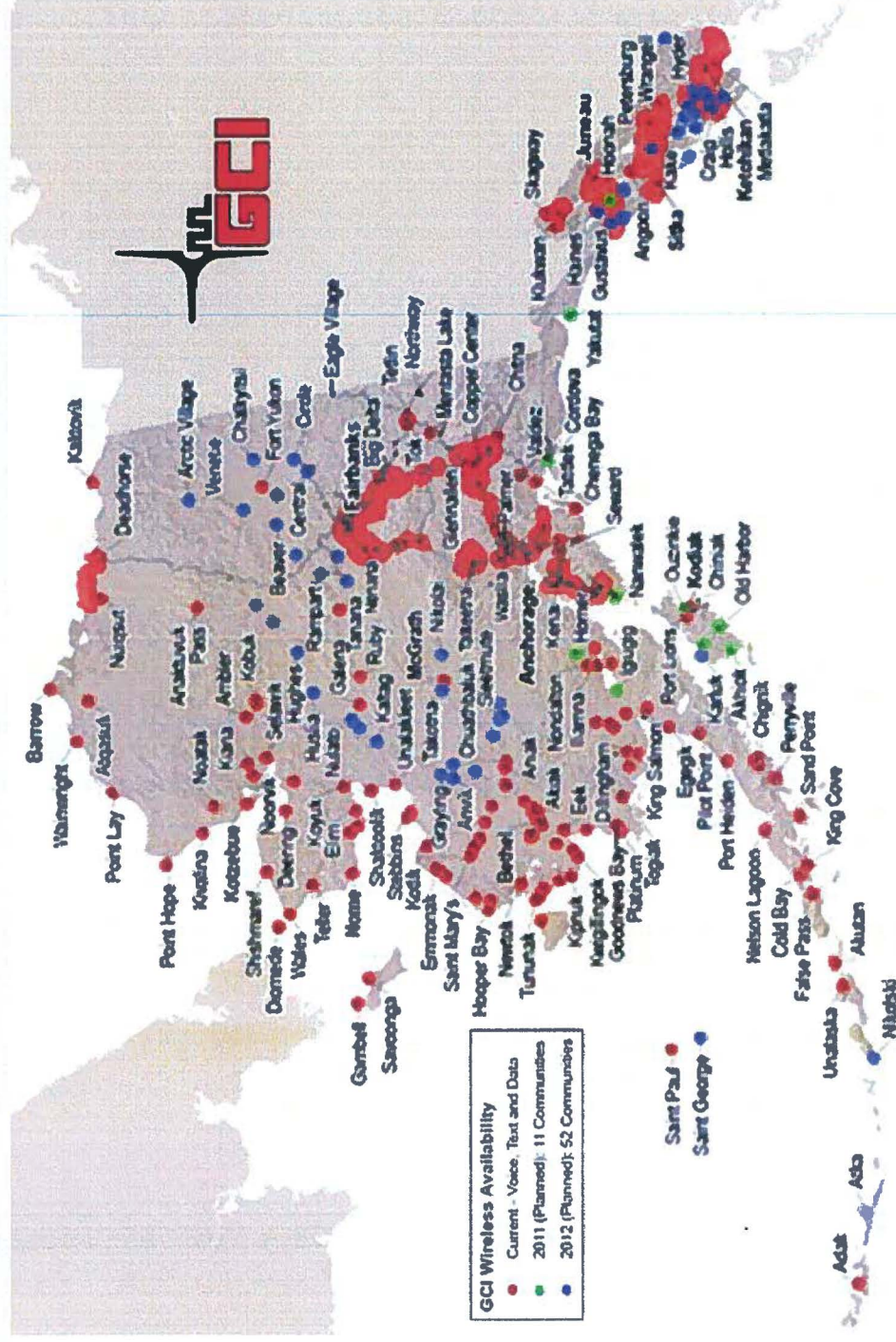
High Cost Changes

The Consequences to Alaska

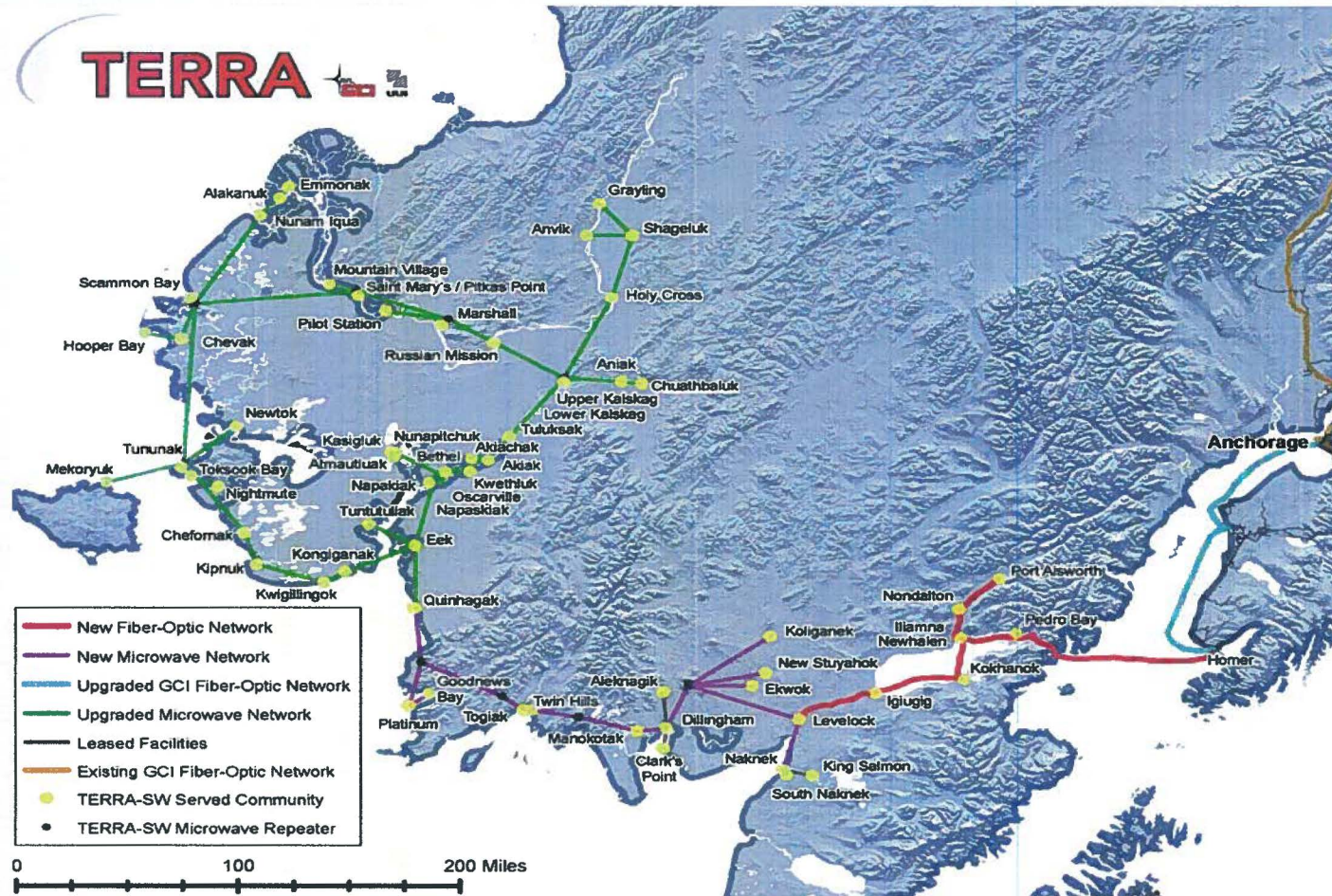
2008 CETC USF Cap “Tribal Lands” Order

- Opened Door to Substantial Investment in Alaska
 - Mobile wireless deployed in 128 of 180 **rural** communities
 - 69 **rural** communities moving from satellite to terrestrial middle mile service.
 - New satellite launched for the remainder of **rural** Alaska
 - Fiber connectivity to Southeast Alaska
 - 22 Mbps urban consumer Internet launched
- GCI/Alaska Has Applied USF High Cost Fund (“HCF”) Support to Rural Mobile/Broadband Just as the FCC Wants

Mobile Wireless in Rural Alaska: Rapid Consumer/Public Safety Adoption

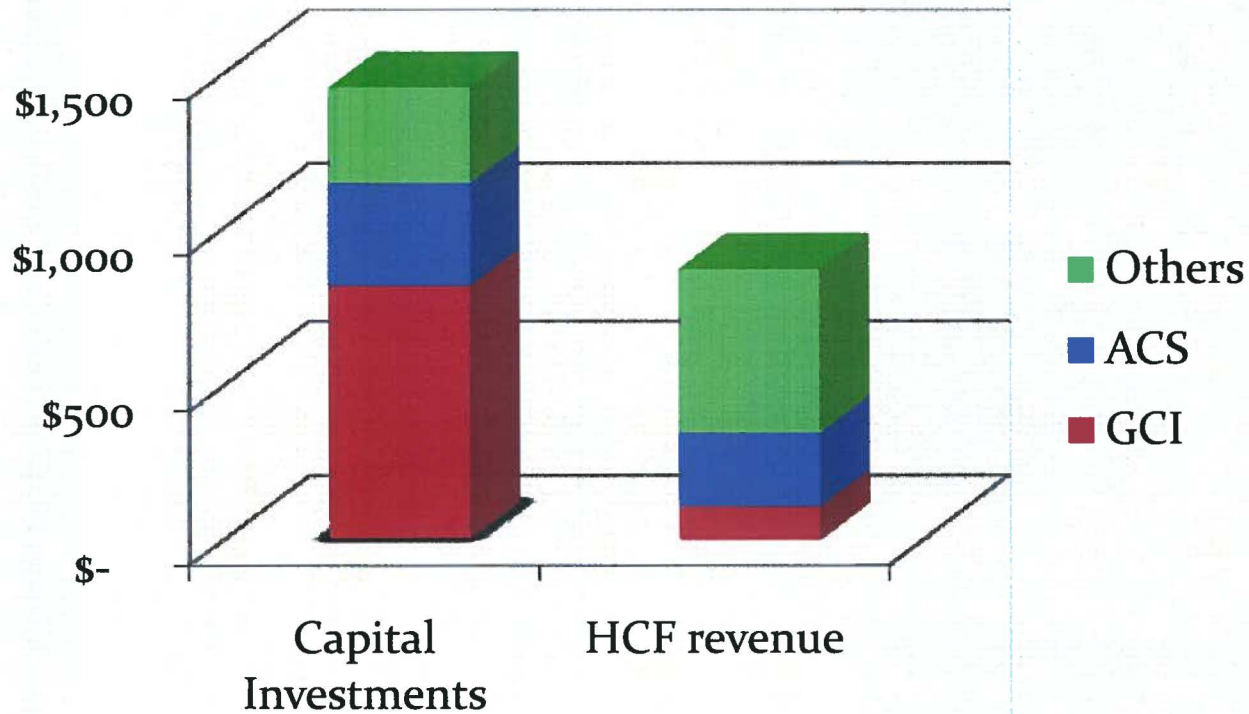


Terrestrial Broadband: Economic Growth, Telemedicine, and Distance Learning



HCF Support: Enables Investment

2006 to 2010 – in millions



Alaska Carrier Broadband Principles

- Cap Alaska HCF Support at \$219 Million (2010)
- ILEC Support Based on Study Area
- CETC Support Based on Frozen per Line Amounts
- Broadband Commitments by Supported Carriers
- HCF Support Constrained and Prioritized through Cascade of Sequential Reductions to Stay within Cap

Reduction Cascade – as proposed by GCI

Cascade Level	Action	Estimated Amount
1. Very High Cost Study Areas	Reduce per-line support by 15% for any CETC whose HCF support exceeds \$380 per line per month	\$3M
2. Anchorage Study Area	Reduce ILEC and CETC support by up to 20% per year over 5 years.	\$13M
3. Fairbanks, Juneau, and Greatland Study Areas	Reduce ILEC and CETC support by up to 10%	\$20M
4. Remaining Study Areas	Reduce ILEC and CETC support to the amount necessary to remain within the cap.	\$183M

October Surprise: Alaska HCF Proposal

- Would Eliminate [REDACTED] of HCF in Alaska

HFC Recipient	2010 HFC	2011 HFC	After 5-year Phase Out	Reduction from 2010
ACS	\$ 55,952	\$ [REDACTED]	[REDACTED]	[REDACTED]
GCI	\$ 46,796	\$ [REDACTED]	[REDACTED]	[REDACTED]
Non ACS ILEC's	\$ 69,003	\$ [REDACTED]	[REDACTED]	[REDACTED]
Other CETC's	\$ 47,226	\$ [REDACTED]	[REDACTED]	[REDACTED]
Total	\$ 218,977	\$ [REDACTED]	[REDACTED]	[REDACTED]

- Reduction of [REDACTED] Million Equal to Approximately [REDACTED] of Telecom Revenues in the State
- Proposed Mobility Funds Not Included
 - Unknown and unpredictable
 - Unlikely to benefit Alaska

Proposal Destroys EBITDA and Capital Investment

Alaska Industry Totals – HCF as a % of

	2011 Estimate	2011 Proposal Pro Forma	Reduction
Revenues	14%		
EBITDA	36%		
Capital investment	101%		

Proposal Erodes GCI and ACS Debt Ratios

amounts in (\$ 000s)

EBITDA Guidance

Proforma reduction for reform

Proforma EBITDA after reform

6-30-11 Debt

Interest Paid

GCI - 2011

ACS - 2011

235,000

126,000

920,000

585,000

70,000

34,000

2011 Leverage (debt / EBITDA) Ratio

3.9

4.6







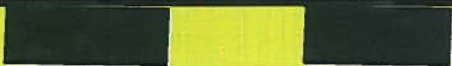
Pro Forma after Proposal

Maximum leverage covenant

5.50

5.25

Proposal Discourages Investment in Alaska

amounts in (\$ 000s)	GCI	ACS
2011 EBITDA	235,000	126,000
Less interest expense	(70,000)	(34,000)
Less capital investment	(190,000)	(52,000)
Cash flow for debt repayment & ROI		
Reduction from reform proposal		
Remaining cash flow		
Percentage of cash flow reduction		

To restore cash flow, carriers will have to slash capital investment.

Proposal Targets Exactly the Wrong Carrier

	Total Wireline Access Lines/ Wireless Handsets	Reduction in HCF Support from 2011	% Reduction
Domestic Alaska Carrier:			
GCI	283,400		
ACS	269,232		
All Other Alaska Carriers	122,998		

Regardless of Its Intentions, the FCC's Effective Message to Carriers and Financial Markets Will Be:

Carriers that rely on FCC policies and invest as desired in rural wireless/broadband deployment should not expect dependable support, realistic replacement plans, or reasonable transition periods .

Surprising the Financial Markets

- October 6, 2011: Raymond James analyst Frank Louthan reports following Chairman Genachowski's speech:
 - "We also heard specific mention of getting broadband out to tribal lands, which we expect to materialize as some more specific revenue protection for these markets (which is good for Alaskan based carriers)."
 - "All of this is positive, and the industry is potentially facing a level of certainty not seen for many years. As a result, we believe investors can more accurately model revenue and FCF for the next several years if the plan comes out as it appears that it might."
 - "As always, we will reserve final judgment until after seeing those devilish details, but we are generally optimistic regarding the prospects from today's speech."

Markets Won't Wait for the Promised Mobility Funds to React

amounts in (\$ 000s)

Combined GCI &
ACS

What multiple of 2011 EBITDA are GCI and ACS valued at?

Enterprise Value

EBITDA Guidance

361,000

EBITDA multiple

What is the implied reduction in equity value from the proposal?

Proposed reduction in USF

EBITDA multiple

Implied reduction in equity value

Current equity value

Percentage of equity value lost

Components of a Solution

Steps	Areas	2010 amounts in millions	2011 amounts in millions
1	Adak CETCs	\$3	
2	Anchorage	\$13	
3	Fairbanks/Juneau	\$20	
4	Remaining	\$183	
	Grand Total	\$219	
	AT&T	\$26	

Conclusion

- Alaska HFC Proposal Is Catastrophic for the Alaska Telecommunications Industry
- Proposal Would Reverse the Enormous Progress (and stop further deployment) that Has Been Made in Alaska Rural Mobile/Broadband Deployment under the FCC's 2008 "Tribal Lands" Order
- Using the Alaska Carrier Broadband Principles as a Starting Point, the Commission Can Accomplish Its Reform Goals without Jeopardizing the Future of Rural Alaska and Its Predominantly Alaska Native Population